

## **INTRODUCTION**

The Office of Internal Audit performed an audit of the Lafayette Adult Services District, Wayne County FIA for the period October 1, 1997 through July 31, 1998. The objectives of our audit were to determine if internal controls in place at the district office provide reasonable assurance that agency assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Lafayette Adult Services District had 110 full time equated positions (FTE's) at the time of our review. Lafayette Adult Services District provided assistance to an average 907 recipients per month during FY 1997, with total assistance payments of \$358,957 during that year.

## **SCOPE**

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Lafayette Adult Services District, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
ENP/ SER Program	Medical Transportation
Phone Usage	

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Lafayette Adult Services District's internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found several instances of noncompliance with FIA policies and procedures and weaknesses in internal controls which are detailed below.

## **DISTRICT OFFICE RESPONSE**

The management of the Lafayette Adult Services District has reviewed all findings and recommendations included in this report. They indicated in a November 16, 1998 memorandum and a subsequent meeting that they are in general agreement with the report, and have implemented corrective action for all items.

## **FINDINGS AND RECOMMENDATIONS - COMPLIANCE**

The following are areas where we found that the Lafayette Adult Services District was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

### **Mail Opening**

1. Lafayette Adult Services District had only one person opening the mail. Accounting Manual Item 403 requires that two people work together to open the mail. Having two people opening the mail helps to ensure that cash and negotiable instruments received in the mail are not lost or stolen prior to being recorded at the district office.

WE RECOMMEND that Lafayette Adult Services District have two people work together to open the mail.

### FIA-61 Log Reconciliation

2. Lafayette Adult Services District did not perform a weekly reconciliation of checks/warrants on hand to the open items on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 460. We found six open items on the FIA-61 for which there was no check or warrant on file. A weekly reconciliation is necessary for timely detection of any warrants/checks that are lost or stolen, to ensure that all checks/warrants on hand are properly recorded on the FIA-61, and to determine that all disposition information has been properly recorded on the FIA-61.

WE RECOMMEND that Lafayette Adult Services District perform a weekly reconciliation of checks/warrants on hand to the FIA-61.

WE ALSO RECOMMEND that the Lafayette Adult Services District determine how the six checks/warrants were disposed of and record that information on the FIA-61.

### FIA-61 Log Preparation

3. The Lafayette Adult Services District mail clerk did not always prepare the Record and Disposition of Checks/Warrants (FIA-61) when the mail was opened and forward a copy of the FIA-61 and negotiables to fiscal, as required by Accounting Manual Item 431. Preparing and forwarding a copy of the FIA-61 to the fiscal clerk provides a record to ensure that all cash and negotiables received are properly accounted for.

WE RECOMMEND that the Lafayette Adult Services District mail clerk prepare the FIA-61 when negotiable documents are received in the mail and forward a copy of the FIA-61 to the fiscal clerk with the cash and negotiable instruments.

#### Returned Warrants

4. The Lafayette Adult Services District bookkeeper did not maintain a pending copy or a permanent file of FIA-138's (Action Taken on State Treasurer's Warrants by Local Offices) or FIA-2362's (Services Warrants Rewrite/Disposition Request), as required by Accounting Manual Item 462. Maintaining a pending and a permanent file will provide an audit trail to the FIA-61, Record and Disposition of State Warrants.

WE RECOMMEND that the Lafayette Adult Services District bookkeeper maintain a pending and permanent file of FIA-138/2362's.

#### Official Cashier Receipts

5. Lafayette Adult Services District did not prepare an Official Cashier's Receipts (FIA-3681) for all moneys and food stamps received over the counter in accordance with Accounting Manual Item 433. Preparing an Official Cashier's Receipts when moneys are received will provide an audit trail and properly account for all moneys received.

WE RECOMMEND that Lafayette Adult Services District prepare an Official Cashiers Receipt for all moneys received over the counter.

#### Recording of Voided Receipts

6. The Lafayette Adult Services District bookkeeper did not record voided receipts or 12 other receipts in the Cash Receipts Register for the test month as required by Accounting Manual Item 430. All three parts of the receipt must be marked void and filed in the Receipt book. Recording all cash receipts in numerical order in the Cash Receipts Register will provide an audit trail from the FIA-4729 (Daily Record of Cash Receipts for Deposit) and that all funds received are properly accounted for in the accounting records.

WE RECOMMEND that Lafayette Adult Services District record all receipts in the Cash Receipts Register.

#### Field Receipts

7. The Lafayette Adult Services District did not use field receipts when the services workers received money in the field. Instead, the workers brought the negotiables into the fiscal office for processing. Accounting Manual Item 432 states that a field receipt must be used if funds are received from clients on a home visit. Field receipts provide the client with documentation of amounts given to services workers in the field.

WE RECOMMEND that Lafayette Adult Services use field receipts when workers receive money out in the field.

#### Daily Mail Record of Cash Receipts

8. The Lafayette Adult Services District did not use the Daily Mail Record of Cash Receipts (FIA-4729) for all negotiables received for deposit. Instead the District used the Record and Disposition of Checks/Warrants (FIA-61) to record all negotiables received in the mail. Accounting Manual Item 431 states that a FIA-4729 is to be used to record negotiables received at the District for deposit.

WE RECOMMEND that Lafayette Adult Services record all negotiables for deposit on the FIA-4729.

#### Separation of Duties - Disbursements

9. Lafayette Adult Service District did not properly separate the cash disbursements duties. Our review disclosed that the same employee prepared and signed the checks. Accounting Manual Item 410 states that for internal control purposes, the person

responsible for signing the checks should be an employee independent of the cash disbursement function.

WE RECOMMEND that Lafayette Adult Services District have an employee independent of the check preparation process operate the check signing machine.

#### Supporting Documentation for Payments

10. Lafayette Adult Services District did not always attach supporting documentation to the Authorization/Invoice (FIA-849) or the Supplemental Payment Authorization (FIA-13) on file in the Accounting Office, as required by Accounting Manual Item 404. An invoice or other supporting documentation was not attached for 24 of the 79 FIA-849 payments we reviewed. Attaching the original invoices to the Accounting Office copy of the FIA-849 helps ensure that all FIA-849 payments are accurate and appropriate. Attaching supporting documentation to the FIA-13 provides documentation that supplemental payments are appropriate.

WE RECOMMEND that Lafayette Adult Services District attach the original invoice or other supporting documentation to the Accounting Office copy of the FIA-849, and attach supporting documentation to the Accounting Office copy of the FIA-13.

#### Sign-O-Meter Record

11. Lafayette Adult Services District did not prepare the Sign-O-Meter Record (FIA-4711), as required by Accounting Manual Item 410.1. Use of the Sign-O-Meter Record and reconciliation process helps to ensure that all checks that go through the check signer are accounted for in the accounting records.

WE RECOMMEND that Lafayette Adult Services District use the Sign-O-Meter Record and reconcile it to the Check Register each month.

#### Monthly Closing of Books

12. Lafayette Adult Services District did not close its books monthly, as required by Accounting Manual Item 402. Closing the books at the end of each month helps prevent unauthorized transactions from being entered at a late date to avoid detection.

WE RECOMMEND that Lafayette Adult Services close its books each month.

#### Stamping Documents "PAID"

13. Lafayette Adult Services District did not stamp supporting documents "PAID" when payment was made. The Accounting Manual Items related to each payment type require that supporting documents be stamped "PAID." Stamping supporting documents "PAID" helps prevent duplicate payments.

WE RECOMMEND that Lafayette Adult Services District stamp supporting documents "PAID" when payment is made.

#### Controlled Document Log

14. Lafayette Adult Services District did not properly control blank documents. We noted that the district office was not using the Controlled Document Log (FIA-4070) for all Controlled Documents used at the district office as required by Accounting Manual Item 403. Also the Monthly Controlled Document Inventory and Reconciliation (FIA-4351) was not prepared for any of the controlled documents. Use of the Controlled Document Log and preparation of the Monthly Controlled Document Inventory and Reconciliation

help to ensure that loss, theft, or misuse of controlled documents would be detected on a timely basis.

WE RECOMMEND that Lafayette Adult Services District use the Controlled Document Log and prepare the Monthly Controlled Document Inventory and Reconciliation for all controlled documents.

#### MA-010 Reconciliation

15. Lafayette Adult Services District did not reconcile flagged transactions on the Transaction Control Listing (MA-010) to the input documents, as required by the Local Office Reports Description Manual. Reconciliation of the flagged accounts helps to ensure that transactions were properly authorized and correctly entered on the Client Information System (CIS).

WE RECOMMEND that Lafayette Adult Services District reconcile the flagged transactions on the MA-010 to the input documents.

#### Designated Staff Person

16. Lafayette Adult Services District did not have a Designated Staff Person (DSP) or Backup for handling confidential information received from the Internal Revenue Service (IRS), as required by Program Administrative Manual (PAM) Item 800. A DSP is necessary to ensure that information received from the IRS is kept confidential. Breach of confidentiality could result in the department being denied access to IRS information.

WE RECOMMEND that Lafayette Adult Services District appoint a Designated Staff Person to handle confidential information received from the IRS.



### Unsigned Unearned Income Notices

17. Lafayette Adult Services District did not always properly safeguard unsigned Unearned Income Notices (FIA-4487A). We found that the district did not record the FIA-4487A's on the Internal Revenue Service Data Control Sheet (FIA-4488). Program Administrative Manual Item 800 requires that unsigned FIA-4487A's be held by the DSP in a secure area, and that all FIA-4487A's be recorded on the FIA-4488. These procedures are necessary to ensure that information obtained from the IRS remains confidential.

WE RECOMMEND that Lafayette Adult Services to ensure that all unsigned FIA-4487A's are kept by the DSP in a secure area, and are recorded on the FIA-4488.

### Knowledge of IRS Security Procedures

18. The Lafayette Adult Services District mailroom staff and the Eligibility Specialists (ES) were unaware of the proper procedures to follow for confidential information received from the IRS. Family Independence Agency L-Letter 94-1 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Such understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that Lafayette Adult Services District familiarize its mailroom and ES staff with all aspects of the confidentiality laws for information received from the IRS.

### **RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS**

The following are areas where we have identified a control weakness at Lafayette Adult Services, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

#### LOAAS Security

19. Lafayette Adult Services District did not maintain backup tapes for its Local Office Automated Accounting System (LOAAS) at an off-site location. Backup tapes should be stored off-site to protect them in the event of a flood, fire, or other disaster, to ensure that the District would be able to reconstruct its records if necessary.

WE RECOMMEND that Lafayette Adult Services District maintain backup tapes of its LOAAS at an off-site storage location.

#### CIS Status Codes

20. The Information Technology Technician (ITT) at the Lafayette Adult Services office had an FLM status code on the Client Information System (CIS). This status code allows the ITT to access client case information and make changes to client cases. This level of access is not necessary to perform the functions of an ITT. We also found that the analyst who reconciles the MA-010 report has BUR status on the CIS system. This status would allow the reconciler to process case transactions without an independent review.

WE RECOMMEND that the Lafayette Adult Services change the ITT to an appropriate status without casefile maintenance capabilities, and the analyst to INQ inquiry only status on CIS.